

Message Text

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ACTION ARA-14

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FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 2471
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
AMEMBASSY LONDON

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PASS TREASURY

E.O. 11652: N/A
TAGS: EFIN, BR
SUBJ: BRAZIL RAISES GRACE PERIOD ON FOREIGN LOANS

1. BRAZIL'S CENTRAL BANK HAS RAISED, EFFECTIVE JUNE 24, 1977, THE GRACE PERIOD ON ALL FOREIGN FINANCIAL LOANS (UNDER RESOLUTION 63 AND L2 4131) FROM SIX MONTHS TO 30 (THIRTY) MONTHS. THE MINIMUM REPAYMENT TERM OF FIVE YEARS ON THESE LOANS REMAINS UNCHANGED. (RESOLUTION 63 LOANS ARE MADE BY A FOREIGN BANK TO A BRAZILIAN FINANCIAL INSTITUTION FOR REPASS TO LOCAL FIRMS. LAW 4131 LOANS ARE MADE DIRECTLY TO LOCAL FIRMS BY FOREIGN BANKS).

2. THE CENTRAL BANK HAS ALSO AUTHORIZED LOCAL FIRMS THAT CONTRACT LAW 4131 LOANS TO DEPOSIT PROCEEDS WITH LOCAL BANKS, IF THE FUNDS SHOULD BE NEEDED FOR LESS THAN THE MINIMUM FIVE YEARS. PREVIOUSLY FIRMS WERE OBLIGED TO

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KEEP THE FUNDS FOR THE FULL FIVE YEARS AND CARRY THE EXCHANGE LOSS FOR THE ENTIRE PERIOD. FOR THE LAST EIGHTEEN MONTHS OR SO RESOLUTION 63 FUNDS IN EXCESS OF NEEDS HAVE BEEN DEPOSITED WITH THE CENTRAL BANK, WHICH PAID THE DEPOSITING INSTITUTION THE FULL COST OF BORROWING.

COMMENT:

3. THE INCREASE IN THE GRACE PERIOD TO 30 MONTHS WAS APPARENTLY INTRODUCED IN ORDER NOT TO AGGRAVATE FURTHER THE "BUNCHING" OF FOREIGN DEBT REPAYMENTS IN 1978 AND 1979. BRAZILIAN AUTHORITIES REPORTEDLY BELIEVE THAT, GIVEN THE VERY LIQUID SITUATION IN THE EURODOLLAR MARKET, THE LENGTHENING OF THE GRACE PERIOD SHOULD HAVE LITTLE, IF ANY, IMPACT ON THE COUNTRY'S ABILITY TO ATTRACT THE NECESSARY CAPITAL TO MEET ITS FINANCING NEEDS FOR 1977. FOREIGN BANKERS IN BRAZIL REACTED, AS EXPECTED, NEGATIVELY TO THE MOVE, ALTHOUGH NO CHANGE IN LENDING POLICY IS EXPECTED PENDING FURTHER INSTRUCTIONS FROM HEADQUARTERS. THE NET EFFECT OF THE GRACE PERIOD CHANGE IS TO INCREASE THE MEDIAN LIFE OF OUTSTANDING LOANS TO BRAZIL FROM 30 MONTHS TO 45 MONTHS, WHICH REPRESENTS A DEFINITE HARDENING OF TERMS INsofar AS FOREIGN BANKS ARE CONCERNED. IN ADDITION, THE LONGER GRACE PERIOD WILL MEAN THAT THE 1978/79 BUNCHING WILL BE EXTENDED TO 1980 AND BEYOND.

4. THERE WERE TWO REASONS WHY THE CENTRAL BANK AUTHORIZED LAW 4131 BORROWERS TO DEPOSIT FOREIGN LOAN PROCEEDS WITH LOCAL BANKS: (A) TO MAKE THIS TYPE OF BORROWING MORE ATTRACTIVE AND (B) TO PROVIDE LIMITED OFFICIAL USE

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AN ALTERNATIVE TO OPEN MARKET INVESTMENTS FOR THESE FUNDS.
JOHNSON

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Message Attributes

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